

6 Social Enterprise in Iceland

The Long Journey Towards a Hybrid Welfare Model

*Steinunn Hrafnisdóttir and
Ómar H. Kristmundsson*

Introduction

Although the terms “social innovation”, “social entrepreneur” and “social enterprise” were relatively unknown in public discourse in Iceland until the start of the 21st century, the country has a long history of collective initiatives directed towards social objectives which correspond to the EMES Network’s approach to the concept of social enterprise.¹ As elsewhere in Europe, the freedom of association, which was recognised in Iceland in the 19th century, urbanisation and a growing middle class formed the background against which new associations, social movements and cooperatives appeared and developed in the late 19th and early 20th centuries.

In the first part of this chapter, the historical roots of social enterprise (SE) in Iceland will be analysed. Then, concepts and definitions that describe social enterprise will be addressed, and a tentative categorisation of social enterprise will be put forward. Finally, the SE-related policy, legal environment within which social enterprises operate and support for these initiatives will be discussed.

6.1 Historical Roots of Icelandic Social Enterprise

It is generally agreed that Iceland belongs to the Nordic welfare model (as do Denmark, Finland, Norway and Sweden). The Nordic welfare states are known for their universal welfare services and equal opportunities for their citizens. However, Iceland has always deviated from the Scandinavian countries in some respects, and it has been suggested that the Icelandic system is a hybrid of the Nordic welfare model and the liberal model (Ólafsson 2012). This has been explained by the country’s late modernisation and industrialisation and different political landscape, in comparison to the other Nordic countries, which gave social enterprises a larger role in welfare services (Ólafsson 1999; Hrafnisdóttir and Kristmundsson 2012a).

6.1.1 Industrialisation and Mass Movements at the Turn of the 20th Century

The urbanisation and economic upswing that followed industrialisation at the turn of the 20th century created several mass movements focusing on human rights and public-welfare objectives (Hrafnisdóttir 2006, 2008; Hrafnisdóttir and Kristmundsson 2012b). Women's associations were established which, in addition to pressing for women's fundamental rights, performed charity and humanitarian work. A powerful temperance movement also became, in a short time, one of the largest mass movements in the country. In the late 19th and early 20th centuries, these new movements established and began to run hospitals and other social and health institutions, which were for the most part financed by the associations and the patients themselves. The role of the government, be it as financer or provider of these welfare services, remained limited.

6.1.2 Continued Importance of Associations in the Developing Icelandic Welfare System in the First Half of the 20th Century

In the second and third decades of the 20th century, the direct involvement of the government in welfare programmes increased, finally leading to the foundation of the present Icelandic welfare system. There were several reasons for these changes. First, the national income increased considerably as a result of the industrialisation of fishing, and this resulted, in turn, in growing urbanisation. Secondly, a new political system, which focused more on domestic problems, was established. Finally, labour unions became influential in public policy-making and, together with other associations, led the public debate on the need for improvement in health and social security (Hrafnisdóttir and Kristmundsson 2012a, 2012b).

All these factors paved the way for increasing public intervention and contributions to the welfare sector in the form of sickness, injury and support insurance. This development led to a substantial increase in welfare expenditure and created the first stable foundation on which private entities operating in the welfare sector could establish themselves. The Icelandic government passed legislation on public insurance in 1936 and a Social Security Act in 1947. These two acts formed the backbone of the state's welfare legislation (Ólafsson 1999, 2012; Jónsson 2001). Despite this ground-breaking legislation, however, non-profit institutions continued to take the initiative in terms of setting up of new welfare institutions (Hrafnisdóttir and Kristmundsson 2012b). The construction of hospitals was primarily in the hands of private organisations, such as the Catholic Church and women's associations, and affluent individuals. The number of associations operating in the welfare sector did not increase substantially during this period, but patients' associations were established for the first time; these campaigned for their clients' interests,

but also took the initiative in establishing and running treatment facilities. Other types of collective movements also emerged, including powerful unions and political parties, which formed strong alliances as in the other Nordic countries. Cooperative societies became prominent and were instrumental in increasing the number of commercial and industrial jobs in the country.

Despite the establishment of the social security system, associations continued to fund and operate various welfare institutions (Hrafnisdóttir and Kristmundsson 2012b). The official system, however, provided an important regular income in the form of day rates, that is, an amount of money paid by the government based on the number of patients and care days. In some cases, governmental subsidies also covered construction expenses. Yet official funding levels remained low, so that an examination of the history of various associations from this period reveals constant financial problems and requests for increased governmental support.

6.1.3 From Informal Relations between the State and NPOs to New Public Management in the Late 20th Century

In the 1970s and 1980s, various patients' organisations and member-oriented associations formed an umbrella group, the Icelandic Disability Alliance (*Öryrkjabandalagið*), which became a powerful means of putting pressure on the welfare state, urging it to take responsibility for dealing with various problems. The group also insisted on being given a role in the policy-making process.

It was not until the latter half of the 20th century that fundamental changes occurred in relations between non-profits and the government, following the establishment of the Icelandic welfare state, economic growth and social changes. The government gradually took over general hospitals and some other activities in the health sector. As a consequence, some non-profits became quasi-governmental agencies. However, increasing public responsibility did not crowd out as many non-profits as might have been expected. Indeed, several welfare services—notably, those offered by nursing homes, rehabilitation centres, residential services for the disabled and treatment facilities for alcohol and drug abusers—remained the responsibility of the non-profit sector, though with government funding. In these areas, non-profit organisations are still large or even dominant today in terms of both their level of activity and staff numbers (Sigurdardottir *et al.* 2016; Hrafnisdóttir and Kristmundsson 2019).

Historical research (Hrafnisdóttir and Kristmundsson 2012b) shows that civil society has been a great contributor to social innovation and entrepreneurship in Iceland. Furthermore, there was a close relationship between the state and interest organisations in implementing public policies. Non-contractual informal relations were the norm until the 1990s,

but with the establishment of new public management (NPM), in 1991, a development was initiated towards more detailed unit-cost contracts. For the first time, a government's white paper included privatisation objectives and goals linked to the outsourcing of programmes to private organisations in order to assure efficient and effective public services. This development led to an increase in different types of formal service contracts at various administrative levels (Kristmundsson 2009). A legislative framework for contracting and tendering was created. However, most of the contracts made in this period were so-called "soft" and less specific contracts, focusing on cooperation rather than competition, and on trust rather than distrust. State/non-profit communication in general was largely based on trust, although monitoring and surveillance were also part of the agreement. For the most part, the government contracted with parties that were considered trustworthy and had a good reputation. Emphasis was put on market mechanisms to regulate third-sector organisations in welfare services, with specific emphasis on business and privatisation. The development towards more formal relations between government and non-profit organisations seems to have occurred at a slower pace in Iceland than in the other Nordic countries, even though the period has been characterised, as elsewhere, by formal contracts and NPM. Iceland also witnessed an increase in membership of all kinds of advocacy groups, fighting for various causes and even establishing new initiatives (Hrafnisdóttir and Kristmundsson 2019).

6.1.4 Increasingly Formalised Relations between Third-Sector Organisations and the State in the Aftermath of the 2008 Crisis

Like many other countries worldwide, Iceland experienced a financial collapse in 2008, with serious consequences. The gross domestic product contracted by some 10% in two years (2009 and 2010), and unemployment rose from 1%–2% in 2007–2008 to about 9% in 2009. Real earnings were drastically reduced, private consumption contracted by some 24% between 2007 and 2009, and household, corporate and government debt escalated. Iceland had to apply to the IMF and neighbouring countries for emergency assistance, loans and guidance (Hrafnisdóttir and Kristmundsson 2011; Ólafsson 2013).

The role of third-sector organisations after the crisis has not been studied systematically with regard to their innovative or entrepreneurial role. However, analysis of official documents from the Ministry of Welfare and of the annual reports of relevant third-sector organisations indicates that they played some innovative and entrepreneurial role during the crisis. Third-sector organisations joined forces with the government in establishing all kinds of labour-market incentives, voluntary work for unemployed people and food distribution, and they participated at government level in policy-making and consultation on

reactions to the crisis (Hrafnisdóttir and Kristmundsson 2011; Friðleifsdóttir *et al.* 2017). The number of third-sector organisations in work-integration activities grew considerably after the crisis; they focused on work-related activities with vulnerable groups, sometimes providing them with a way of entering the mainstream labour market. A time-series study of the effects of the crisis on the third sector also revealed new and extensive challenges: since the turn of the century, the sector has been facing problems related to funding and capacity. The environment is becoming more competitive, resulting in greater marketisation of the non-profit sector and increased formalisation of the relations between the state and the sector (Hrafnisdóttir and Kristmundsson 2016).

6.2 Categories of Social Enterprises

Even though, as underlined above, there is no specific legal framework for social enterprises in Iceland, various entities can be categorised under the term such as it is understood by the EMES Network.

Drawing inspiration from Defourny and Nyssens' typology, we identify three main categories of social enterprise in Iceland: entrepreneurial non-profits, public-sector social enterprises and social cooperatives.² These three categories are explored below, and a synthetic overview is offered in table 6.1.

6.2.1 *Entrepreneurial Non-Profits*

According to Defourny and Nyssens (2017: 2480), the entrepreneurial non-profit (ENP) model gathers “all non-profit organisations developing any type of earned-income business in support of their social mission”. The term also explicitly includes a non-distribution constraint.³ Approximately nine Icelandic social enterprises out of ten can be categorised as *entrepreneurial non-profits*. These include associations (the verbatim translation of the Icelandic term is “free associations”; in juridical discourse, “general associations”), which are defined as “entities consisting of a number of persons who unite or join together on a voluntary basis for some special non-profit purpose” (Björgvinsdóttir 2008). There is no legally defined framework for associations in Iceland. Icelandic associations operate in several sectors.

6.2.2 *Public-Sector Social Enterprises*

A *public-sector social enterprise* is defined as “a kind of ‘reconfiguration’ or ‘externalisation’ of public services under the organisational form of social enterprise, with the expressed aims of improving and innovating in the provision and delivery of services” (Defourny and Nyssens 2017: 2485).

Table 6.1 SE models in Iceland

<i>Defourny and Nyssens' typology</i>	<i>Icelandic terminology</i>	<i>Example</i>	<i>Icelandic legal framework</i>	<i>Primary sector</i>
Entrepreneurial non-profit	(Free/general) association (<i>frjáls/ almenn félagasamtök</i>)	Icelandic Association for Search and Rescue (SAR-ICE)	Non-existent	Welfare, sport/culture/ environment
Public-sector social enterprise	Self-governing foundations (<i>I. sjálfseignarstofnanir</i>)	Fjölsmiðjan (vocational training centre for adolescents)	Law on foundations No. 19/1988 – No. 33/1999	Welfare
Social cooperative	Cooperatives (<i>I. samvinnufélög</i>)	NPA centre (independent living centre)	Act on Cooperatives No. 22/1991	Welfare

This model accounts for approximately one out of ten Icelandic social enterprises. In most cases, these consist of self-governing foundations, established by either local or central government, and associations. Most of them operate in the welfare sector, for example, in the area of vocational training, work rehabilitation and services for the elderly and disabled people. Self-governing foundations have independent boards in charge of managing the assets. The distribution of profits to members of the board is not allowed. Operations are based on the Act on Funds and Institutions Operating According to Approved Charters, No. 19/1988, and the Act on Foundations Engaging in Business Operations, No. 33/1999.

6.2.3 Social Cooperatives

Cooperatives are “first and foremost mutual-interest enterprises, owned and (democratically) controlled by their members for their own non-capitalist interests” (Defourny and Nyssens 2017: 2481). A very small number of cooperatives exist in Iceland. Historically, however, consumer and credit and savings cooperatives were prominent actors in the Icelandic economy during a large part of the 20th century. In the last quarter of this century, most of them were replaced by businesses using other operational forms, but a small number of user-oriented entities operating in the welfare sector have revitalised the cooperative form. Special legislation on cooperatives exists in Iceland (Act No. 22/1991).

6.3 Policy, Legal Environment and Support

The terms “social enterprise”, “social innovation” and “social entrepreneurs” have rarely been cited in Icelandic public policy. As has already been mentioned, there are no specific legal form nor regulations for social enterprises in Iceland. There is legislation on self-governing foundations (Acts No. 19/1988 and No. 33/1999) and on cooperatives (Act No. 22/1991), but there is no general law on associations either. In such legal context, entities that can be categorised under the term “social enterprise” (i.e., those listed in the three categories described in section 6.2) are registered as “self-governing foundations”, “cooperatives”, “associations” or “private companies”.

There is no special policy or support structure aimed at social enterprises either. Iceland lags behind many European countries in implementing specific large-scale policy initiatives to support and strengthen social enterprises, social entrepreneurs and social innovation. Indeed, the same applies in general to the third sector. There is interest in entrepreneurship and some initiatives to support it, often related to technical solutions, but there has been little political interest in social enterprises, social entrepreneurship and social innovation until recently. However, a few initiatives can be mentioned. In 2015, for example, the

Ministry of Welfare implemented a special policy on innovation in welfare services and technology (Ministry of Welfare 2015). As part of that policy, the Ministry established a social-innovation fund to promote social entrepreneurship and social innovation; both municipalities and other entities providing social services are eligible for application. In April 2017, the first Icelandic business accelerator for social innovation was launched, in cooperation with various universities and official bodies. The endeavour is meant to strengthen diversity in Icelandic innovation and create a forum for social entrepreneurial activities.

There are thus some signs of a growing interest in this field in Iceland, not least because of a general distrust of for-profit solutions in the welfare sector, following the financial crisis. Like previous governments, the new coalition government that came into power in the fall of 2017 focused on innovation—including social innovation—in its white paper.

Conclusion

In this chapter, we have reviewed the development of Icelandic social enterprises and the context within which they operate, and we have presented a first attempt to identify SE models in Iceland, based on Defourny and Nyssens' (2017) typology. Three main SE categories were identified, based on available historical material, legal framework, official publications and available data: entrepreneurial non-profits; entrepreneurial non-profits; public-sector social enterprises; and social cooperatives. However, as has been discussed above, identifying different SE models is a hard exercise in the Icelandic context, because of limited official data and the lack of in-depth research on the different categories of social enterprise in the country. Furthermore, in many respects, the concept of social enterprise and other related concepts, such as social innovation and social entrepreneurship, are still in their infancy in Iceland. The country needs to deepen its knowledge and understanding of social innovation and social enterprises. There is also a need for regulation and institutional frameworks to support Icelandic social enterprises.

In future studies, it will be important to analyse the various types of social enterprise and develop a more in-depth typology of the different SE models.

Notes

- 1 For example, see the following definition: "Social enterprises (SE) are organisations which combine an entrepreneurial dynamic to provide services or goods with a primacy of social aims. [Social enterprises] naturally cross various types of borders: sectoral [borders] (public, business, cooperatives, associations) [as well as borders in terms of] resources (drawing them from the market, public procurement, grants, and philanthropy) and [of] activity fields

- (personal services, finance, recycling industry, energy and transport, food supply chains ...)” (COST Association 2017: 3).
- 2 The fourth SE model identified by Defourny and Nyssens, namely that of social businesses, defined as “businesses that apply market-based strategies to achieve a social or environmental purpose” (Defourny and Nyssens, 2017: 2474), does not correspond to any specific category of social enterprise in Iceland.
 - 3 Non-profit organisations are commonly defined as entities that meet the following criteria: (1) they must not distribute profit; (2) they are self-governing and organisationally separate from the government; (3) they must have some formal structure, defined by regulations or formal rules and (4) they must be based on free membership, and involve, to some extent, voluntary work (Hrafnisdóttir, 2008).

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